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On the RECENT HISTORY of the CRÉDIT MOBILIER.

By WILLIAM NEWMARCH.

[Section F, Economic Science and Statistics, of the British Association for the Advancement of Science, at Leeds, Tuesday, 28th September, 1858.]

OF the verbal statement made by Mr. Newmarch on the subject stated above, the following Report is obtained from the notes of the Short-hand writer:—

THERE was established in France, in 1852, a Society of a very extraordinary character, which, taking the name of the Société Générale de Crédit Mobilier, has not failed to occupy a considerable share of attention during the period of nearly six years it has been in operation. Most persons who have at all had their attention directed to French Finance, cannot have failed to have been struck, from time to time during those six years, with the statements made, and the results put forward, in connection with the experience of this new Society. Two years ago, at the Meeting of this Association, at Cheltenham, I submitted to this Section an analysis of the principles upon which the Society was constituted, and of the results obtained up to that time; and I ventured to say, notwithstanding the brilliant results achieved down to the close of 1855, that there were so many fundamental and grave errors connected with the whole of the system upon which the Society was founded, that no long time could elapse before serious mischief might be apprehended. I think that I shall now be able to show to the Section good reasons for believing that the statement thus made two years ago, was a statement made upon reasonable foundation.

First, as regards the Crédit Mobilier itself. Let me state a few particulars, for the convenience of those who may not have the facts readily in their remembrance. The Society was constituted in November, 1852. It was a Joint Stock Company, *en commandité*, or upon the principle of limited liability; the capital being 2,400,000*l.*, in shares of 20*l.* each. As to the sphere to be filled by the Society, without attempting to read to you the elaborate array of objects set forth in the Prospectus--or to go through the statutes which constitute the foundation or Charter—I may state that the operations of the Society are directed principally into three fields. First of all, the Crédit Mobilier is a Society intended to carry on all kinds of trading operations—a Society for making railways, contracting loans, managing omnibus and gas companies—in fact, a universal Trading Association. Secondly, it is a Society for buy-

ing up existing Trading Societies and Companies, so far as negotiations can be completed for that purpose; and it is, thirdly, a universal Banking and Brokerage Company, professing itself ready to make advances upon the Stock Exchange, and to enter generally into all the operations which, in this country, we understand to be connected with the administration of a Bank, the business of a Bill Broker, or the business of a Broker in the ordinary acceptance of the term.

The funds which are necessary for carrying on these great and diverse operations, were to be obtained in three modes. First, by the capital of the Society itself, amounting, as I have said, to 2,400,000*l.*; secondly, by deposits taken by the Society from the public; and, thirdly—although this part of the plan was not carried into effect—by the emission by the Society of a new kind of circulating paper—meant to be something between the present bank note convertible into specie upon demand, and a kind of obligation not convertible at all. It was this last part of the constitution of the Society to which I directed particular attention in 1856. According to the statutes, it was provided that a sum of not less than 24,000,000*l.* sterling should be raised by the emission of this class of small circulating notes; the notes themselves bearing interest from day to day (corresponding in that respect closely to our Exchequer Bills) drawn for small amounts, and intended to be issued by the Society in the discount of bills of exchange, or other negotiable instruments. The view was—(and there can be no mistake as to this part of the case, for it is laid down in unmistakable language in the official programme)—that the credit of the Society should be exchanged against the credit of merchants, and at rates of interest more reasonable than were charged at the time by the ordinary Banks; that, for instance, while the rate of discount of the ordinary Banks might be 5 per cent., the rate of the *Crédit Mobilier* should be 3 per cent.; and it is laid down very clearly in the programme, that by a contrivance of this nature, the greatest possible advantages would be conferred upon industry; that it would be wholly impossible, under such a system, that commercial panics or crises could arise; that the credit of the Society would be so great, its ramifications so extensive, that whereas, under former systems, in periods of panic, Banks rather aggravated the evil than otherwise, the *Crédit Mobilier*, by the happy device of the issue of these obligations, would prevent the occurrence of inconvenience or disagreeable necessity. This is a statement fully borne out by the following extract from the published official documents of the 23rd November, 1852:—

“The superiority of the constitution of the Society General consists in the scheme which it includes for the *emission of Obligations at Long Term* in such a manner that the repayment of the Obligations will proceed, *pari passu*, with the

redemption of the Shares and Bonds which the Society will hold in its portfolio. * * *The Society General will have, consequently, nothing to fear from political, industrial, or commercial crises.* On the contrary, we may affirm that it is at those conjunctures when it will be able to render the greatest services: for being the representative of a considerable number of enterprises, the character of a Company of Assurance, which it presents, will secure to its Obligations preferences over all other particular investments. The Society General will perform the office of an intermédiaire between Capitalists and Industry. * * It will put an end to the onerous conditions commonly exacted at present for definitive investments in Industry."

Down to the close of 1855, the position of the Society was somewhat as follows:—It had its paid-up capital of 2,400,000*l.* It had obtained funds, in the form of deposits, to the amount of more than 4,000,000*l.* So that its available means may be taken at above six millions sterling. It had invested about four millions in the French funds, railway shares, and the like; about a million and a third were in bonds of various sorts; and the Society was employing in trading purposes about two millions of its capital. So long as the state of the French Stock Exchange allowed large profits to be made by speculations in the funds—so long as there was something like a continuous rise in those funds—nothing could be more prosperous, or apparently more free from all hazard, than this extraordinary undertaking. At the close of 1855, a profit was shown amounting to 50 per cent. upon the paid-up capital: and an actual division took place at about that rate. It was with these facts before us as to what had been the results up to the end of 1855, that my statement in 1856 was made: and it was the object of that statement to point out that the principles upon which the Society was founded, and the manner in which these large profits were realized, were such as to justify the strongest suspicion that the time could not be far distant when it would be proved that those principles were utterly fallacious, and that this extraordinary success could not continue.

The results of the last two years have gone a long way towards the fulfilment of those apprehensions.. The profit announced at the close of 1856 was barely more than half that of 1855; and the profit at the close of 1857 was scarcely more than a third of the profit of 1856. In point of fact, during the last two years the *Crédit Mobilier* has found itself compelled, by the force of circumstances, to observe exactly the same course in its operations, and to admit exactly the same results in its experience, as in all former times have attended such experiments conducted on such a scale. So long as the *furor* of speculation in France was maintained at fever point, so long as the prices of securities on the Bourse continued to advance, the experience of the *Crédit Mobilier* was precisely that of sharebrokers and others in this country in 1844-5; and so long as large amounts of capital were continually impelled into these dealings, it was comparatively easy

for a great Society, supported as this is by nearly all the great men—I am sorry to say it—connected with the French finances, to make extraordinary profits; especially bearing in mind that one great source of profit consisted in making advances on stocks and shares, *en rapport*, that is, by means of the arrangement or system known in this country as “continuations,” or the continuing of large masses of shares from one account or settling to another, and charging a high rate of interest, and a handsome commission. In all great centres of speculation, a large business is done in these “continuations.” Persons having command of money can always be found to advance within a certain margin of the value of the stocks or shares to be carried over, charging a handsome rate of interest to protect themselves in the transaction. This class of business was prescribed at the outset as one of the fundamental peculiarities of the Society. The Society was set up to make large profits, by enabling speculators to carry over quantities of stock from one account to another.

During the last two years, we have it on the evidence of the Society’s own Reports, that the difficulties which many persons foresaw, even from the foundation of the institution, have begun rapidly to accumulate around its managers. The enormous extent to which the Society has committed itself to all kinds of plans and undertakings from its outset—the enormous accumulation of obligations and liabilities of various kinds—has not failed to bring corresponding embarrassments. At the close of 1856, the Society claimed to itself credit for having entered into obligations and made itself responsible for the carrying out of undertakings, a bare enumeration of which is enough to create astonishment in the minds of those most accustomed to contemplate the liabilities of great enterprises. We are told that the Society had erected the Western Railway Company by the buying-up and consolidation of several old Companies, and by guaranteeing a million sterling of bonds required by the new Company. It had extended similar advantages to the Southern and Eastern Railway Companies. The operations on the Dole and Salins line had been suspended, and the Society had ensured the completion of the works by advances and by purchasing 16,000 bonds. To the Austrian Railway the Society had advanced three and a third millions sterling; it had become largely interested in the Ardennes lines; it undertook lines upon an extensive scale in the Pyrenean Department; it gave credit largely to two Swiss railways; it became mixed up with a railway in Spain; it undertook canals; it bought up all the omnibuses in Paris, and established a General Omnibus Association; it started a General Maritime Association, by purchasing sixty vessels, sailers and steamers: it bought up all the Gas Companies in Paris, and brought out a Central Gas Company; and

considerable progress was made in buying up a number of Salt Works in the South of France.

It is scarcely credible, that as a matter of business, a Society possessing the command of large *bonâ fide* funds, should be found in a country like France, committing itself to a category of obligations such as this : and when we were assured, in connection with such a policy, and apparently upon no mean authority, that a great discovery had been made in finance—that theretofore mankind had been entirely in the dark—merely in the infancy of experience in matters of ordinary business—that we ought not to leave each man to exercise his own prudence in the prosecution of his own interests, but that the only certain and speedy way of accomplishing great results was by means of a vast joint stock combination, which like this *Crédit Mobilier*, should assume to itself almost the attributes and functions of Omnipotence :—when, I say, we heard of this new philosophy, people here might well hesitate before adopting such doctrines, opposed, as they are, to all that is most firmly established in the regions of political economy.

And, indeed, during the last two years, the experience of this great Society has confirmed very much more the predictions of its critics than the anticipations of its promoters. For the Society has found itself compelled, in its last two Reports to admit—in language which, as time has advanced, has become plainer and more specific—that these Railways, these Gas Companies and Omnibus Companies, these lines of Postal Communication, these Steam Packets, these obligations in Switzerland, Spain, Austria, and Russia—had not turned out quite so successful as was expected. The Report to the close of 1856 was by no means a satisfactory document. It was suggestive of a great deal that was doubtful and mysterious as regarded the future, and as to the then actual condition of the Society. The effect was immediately seen in the price of the shares in Paris ; for instead of remaining (the 20*l.* paid-up) at 70 or 80*l.* they fell to something like 30*l.* The price remained very much depressed during the whole of last year. There has recently been a partial recovery, but not to any extent ; and the price is now a little over 30*l.* At the close of 1857, the managers had again to put forth a Report. One of the peculiarities of these Reports, is that they are of great length, and that a large amount of fine writing is indulged in. Instead of a clear statement of profit and loss being set out, and a specific description given of the actual state of the manifold undertakings, we find ourselves travelling through paragraphs, the meaning of which is by no means clear when we reach the end. But at all events we discover this simple fact, namely, that at the close of 1857, the Society found itself compelled to forego the declaration of any dividend. The meeting took place in April of

this year. It is attempted to be shown on the face of the Report, that on the preceding 31st December there was a balance in favour of the concern, assuming a certain mode of valuation as to the investments in those multifarious modes I have indicated. But the Report was also compelled to admit, that taking into account the enormous depreciation between December and April last, the whole apparent surplus has been swept away; that no dividend, in any proper sense, could be declared; and that the prospects for 1858 were not particularly encouraging.

Such is the result of this extraordinary and most marvellous experiment. There have been, and I believe there are, in Paris, very strong reports that the Society is so much damaged and shaken in its most vital interests, that it can scarcely hope to maintain much longer a separate existence; and that some means must be found of winding up, or of placing it in conjunction, in some way or other, with the Bank of France, upon which it has so largely depended from its commencement.

It would be easy for me to go into larger detail but it is scarcely necessary that I should do so. The general result is sufficiently indicated in the tenor of the Report of last year. For if there is one thing that may be regarded as at all certain, it is this—that there has been such a degree of boldness displayed in the management from the beginning, that if it had been by any means possible to put forth at the close of 1857 a better account than was put forth—any means consistent with facts which are perfectly notorious, of presenting a better result as to profit and loss, assets and liabilities—such a statement would not have failed to make its appearance.

By way, however, of conveying to the Section a more specific idea of the operations of the Society, I may state the amount of gross profit set forth in the Reports as arising upon the four leading divisions of those operations. The profits on stocks, shares, and bonds—which, so far as the Reports can be understood, seem to imply the profits made by buying on the one hand and selling on the other, and *vice versa*—amounted, in 1855, to no less than 1,040,000*l.* sterling; but in 1856, this profit had fallen to 457,000*l.*: and in 1857, to 180,000*l.* The significance of the fall under this head was thus referred to in the Report published last April:—"The diminution in the amount which we here mention, is not a fact peculiar to our establishment. The observation may be made more general. A reduction in this kind of investment particularly characterizes the situation of the market. It indicates a profound change in the direction of speculation, and is a sign of discouragement and mistrust for the future." A remark in which, I fancy we shall all be very much inclined to concur. And it is added, that "instead of operating in hopes of a rise, speculators have

"almost constantly done the contrary." As regards the second head—Profits on Commission and Interest: in 1855, the amount was 57,000*l.*; 1856, something near the same; but in 1857, it was only 28,000*l.*. The third head—Continuations: in 1855, 55,000*l.*; 1856, 171,000*l.*; 1857, 27,000*l.* "Interest on investments"—meaning, I suppose, on the Railways, Gas Companies, and so forth—is put down at 121,000*l.* for 1855; but I am sorry to say, for the sake of the shareholders, that no item under this head appears in the Reports for the last two years.

In looking at the history of the *Crédit Mobilier* during the six years it has been in operation, it is impossible not to be struck with the extraordinary state of things which has allowed the growth, and the continuance even for the space of six years, of an institution in itself so exceedingly anomalous—of an institution declaring itself to be almost entirely at variance with all that has been established by reasoning and experiment to be sound and right in institutions of this kind. It was declared as the purpose of the Society from the beginning, that by the application of Credit upon the vastest scale, new and magnificent results should be obtained. But, as a matter of fact, when we look closely into the circumstances of the case, we find that the entire concern is simply a large stock-jobbing association. Leaving wholly out of view, as a separate question, the gigantic and mischievous effects which must have followed from the emission by the Society of 24 millions worth of inconvertible paper, the history of the *Crédit Mobilier* from the beginning to the present time resolves itself into this—that some ten or fifteen persons largely concerned in business on the Paris Bourse have had sufficient influence with the Emperor to induce him to grant them a Charter overflowing with extravagant concessions. Under this Charter they set up this new Society, putting forth in its behalf the most startling pretensions, and claiming to have embodied in its constitution new discoveries in those departments of finance which are the best understood. An experience of six years, however, has amply sufficed to explode the new financial philosophy, and to exhibit the great device in all its natural simplicity of a vast stock-jobbing company. Largely concerned on the Bourse, the promoters of the *Crédit Mobilier* thought they saw their interest in extending their operations: for it is one of the earliest articles of the Society, that whereas the Bank would advance only as far as two-thirds of the value of stocks or shares, the *Crédit Mobilier* would advance to the whole amount, and carry on the speculation from one account to another. The Society's own Reports prove that it is simply a stock-jobbing association: as its own figures prove that the great result of 1855, in regard to profit, was obtained entirely by the margin of price in dealing backwards and forwards with shares and stock. During the last two years, the

bow has been stretched to the utmost; and we find the *Crédit Mobilier*, despite the highest patronage, the boldest management, the choicest opportunities, and the newest financial illumination—despite also the clear and distinct declaration in 1852, that this Society, for the first time in the history of financial projects, would be an institution *not* to be affected by political, social, or commercial convulsions—we find this great concern, supported by persons who, for some reason or other, are supposed to be high authorities in finance; supported, too, by the whole force of the French Government—we find it gradually crumbling away; principle failing after principle, one mode of practice abandoned after another, this investment and that rapidly giving way, till at the present time there is good reason to believe that it is in the last stages of its existence.

But it may be, and it has been, said by those who take a more favourable view of the principles and the operations of the *Crédit Mobilier*, “How do you account for the apparent ease and success “with which the general finances of France have been conducted “during the last five or six years? How do you account for the “circumstance that during that period France has been notoriously “expending large sums, many of them in modes wholly unprofitable, “most of them certainly in modes which do not yield any adequate “revenue?” If we take, for example, the embellishment of the Capital, the expenditure in that direction has been enormous, and there has been enormous expenditure as we know, for six or seven years, on Railways. There is very good reason to believe, that the expenditure in France on railways—actual expenditure in labour and materials—during the last five or six years has not been far short of 30 millions sterling per annum. We know that in this country, during the six years following 1845, taking the average, we certainly did not spend more than thirty millions a year on our railways; and most of us can remember the severe strain which that expenditure imposed. It is a fair subject of inquiry then, how it is that in France during the last five or six years, with the Russian War on their hands, with a failure of the silk crop, and on two occasions of the harvest, this enormous amount of activity was kept up. I dare say there are persons who are disposed to think that this *Crédit Mobilier*—this combination of stock-jobbers for their own aggrandizement, and for purposes which I believe to be entirely and wholly mischievous—has had some considerable share in producing these large and positive results. I believe, however, that there is not the smallest ground for such an opinion. I believe that so far from being of any service in really sustaining credit, or in finding employment for labour, in Paris or the provinces, the *Société Générale* has been a positive source of mischief. I believe that it has had no more to do with producing the beneficial state of employment in France during the last five or

six years, than had the snow which last year melted upon those Pyreneean Mountains in the midst of which the Society is now, very unwisely, spending its money in making railways.

I will tell you why this state of employment has prevailed in France. If any body will have the curiosity to examine the returns of the trade of France, whether as given by the official papers of the French Custom-house, or in some more indirect mode, he will find this startling result—that, since 1845, the balance of trade in favour of France has been very much more than 100 millions sterling. How and where has that great demand for French produce arisen? Chiefly in the United States and Australia—in the gold countries. And the simple answer to the whole of the difficulty is, that the state of things in France, whether political, commercial, or social, since 1851, has not been maintained by devices like the *Crédit Mobilier*, not by political devices, upon which, here, I desire to say nothing, but by the operation of this strong and natural cause—by the vast and increasing amount of French industry set in motion, and sustained year by year, by the new and sudden demand for French products which has grown up in the gold countries; and shortly, it is the payment for that produce which has furnished the means by which those great effects on French Industry already adverted to have been brought about. Look at the last return from our own Board of Trade, and what do we find as the declared value of imports from France during the first half of this year, '58? Why, that the imports were more than seven millions sterling, while the declared value of our exports to France was not more than two millions sterling. How has the five millions worth of produce been paid for? By sending to France the gold we receive from the United States and Australia: and this same process has been in operation from the beginning of the exploration of those new gold fields. The directness and simplicity of the manner in which this result has been brought about by the action of a single cause is surely one of the most remarkable of existing phenomena, and it is another illustration of the profound and extensive changes that are being produced upon the whole of the commercial countries of the world, by the discoveries of the new gold.

One general conclusion may at least be suggested. We see, I think, in the history of this great undertaking—and we shall see it more clearly as facts become more accessible year by year, and as we know more of its secret history—we see in this great, marvellous, and pretentious Company, an instance of the complete powerlessness for good—and I may say of the uncontrollable tendency to mischief—of all devices which aim at accomplishing large results by other than the honestest and most straightforward means. The *Crédit Mobilier* set out with a loud and confident boast that by means of

credit under some new combinations—by some devices which should relieve men from the necessity of thoroughly understanding their own affairs—some contrivance for dispensing with individual labour and self-denial—something to accomplish something by means which nobody could clearly understand—great effects were to be produced. We have had six years' experience, and we now see the result. Depend upon it, whether you examine into the history of institutions of this kind in France, or elsewhere—in our own or in former times—you will arrive at the same conclusion, viz. : That the only mode in which a nation can increase its material wealth is by relying entirely upon the industry and intelligence of its citizens. There is no more a royal road to wealth, than there is a royal road to knowledge ; and any community, large or small, which expects that it can add to its material wealth, or to its material greatness, by devices which do not rest upon this solid and sure foundation, has committed itself to an error, the results of which cannot be foreseen by the wisest. Whatever may have been the advantages of soil, or climate, or geographical position possessed by a country, you will invariably find that in the severest trials through which it may have passed, the resource upon which it has relied with most success has been the industry and devotion of the great body of its people.

In our own case, so long as we cultivate to the utmost attainable limit the moral habits and the intelligent minds of our people, we may, with great composure, commit all such experiments as the *Crédit Mobilier* to the enterprise of others, well knowing that there lies latent in the common people of this country, waiting only for the stimulant of education, a depth of skill and invention far exceeding, even as a means towards material wealth, the imagined results of any device which ever turned the head of a speculator—a fund of wealth far exceeding anything which can be discovered in remote parts of the world. So long as on this side the Channel we are influenced by these views, we may safely content ourselves by seeking, not for a part, but for the whole community, a prosperity and progress, resting upon religion, sustained by freedom, invigorated by industry, and befitting a people trained to prize the highest rewards of more than one world.
